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Local Economy 2008 23: 261
DOI: 10.1080/02690940802407963

Local Economy,
Vol. 23, No. 4, November 2008, 261–266

Routledge
Taylor & Francis Group

VIEWPOINT

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New Start Magazine, Sheffield, UK

Events, as Harold Macmillan famously observed, have a habit of knocking the best-laid plans off course. And as plans go, one might argue that current strategies for the development of England's towns and cities have been better laid than any we have seen for a long time. The implications of the government's review of sub-national economic development and regeneration, taken forward in the *Prosperous Places* consultation (Department for Communities and Local Government and Department for Business, Enterprise and Regulatory Reform, 2008) and explored in detail in the May issue of *Local Economy*, is part of that web of best-laid plans. So, too, is the emergence of local economic masterplans, typified by the publication earlier this year of a masterplan for the future of Sheffield.

At a national level, as *Prosperous Places* makes clear, the government's view is that the winds of change will billow our sails as we head into a rosy future. 'Over the past eleven years, this government has made global change our ally, predicting its opportunities, and ensuring that our people have the skills to meet the challenges,' Hazel Blears and John Hutton trumpet in their introduction.

As the economy grows, '. . . no area of the country should be excluded from rising prosperity, no child should be allowed to squander their talents, and no-one capable of work should be denied the chance to get on.'

Contrast those words, published on 31 March, with the rather more sober forecast of February's issue of *City Economy Digest*, published by the

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ISSN 0269–0942 Print/ISSN 1470–9325 Online/08/040261–6 © 2008, LEPU, South Bank University
DOI: 10.1080/02690940802407963

City of London Corporation. 'Financial services companies have become more cautious in recruitment and a number of foreign banks have announced significant job losses. Some forecasters are now suggesting that job losses in the City could reach levels last seen when the dotcom bubble burst,' it reports. Experian, for example, has put the number of job losses expected in financial services in the City and Canary Wharf at between 10,000 and 20,000 over the course of 2008. Citigroup has already shed 4200 jobs, UBS 1500 and Morgan Stanley 1000.

Anyone tempted to gloat over a bunch of City slickers getting their comeuppance should remember how dependent the rest of us are on the success of London – as Ian Bromley (2008) noted in his reflections in the May issue of *Local Economy*. However effective the proposals for new governance arrangements and statutory duties in *Prosperous Places* might prove to be, they will take time to implement and at best will loosen regional cities' ties to London rather than unleash them.

Sheffield: a Long-term Solution for a Regional City?

So where do these rapidly changing events leave plans for regional prosperity? A look at Sheffield's new masterplan, launched with a fanfare at the London Stock Exchange (clearly a better bet than Sheffield's own Cutlers Hall) could offer some clues.

The central message of the masterplan, produced by the city development company, Creative Sheffield, throws down the gauntlet to city leaders. If Sheffield does not grow faster than its comparators, it will stagnate. 'Maintaining the current trajectory, even allowing for building on the new assets developed in the past ten years, will lead to the city lagging behind the national economy and other major cities,' it warns. 'Higher growth rates elsewhere will see the city's current competitiveness gradually decline.'

To achieve such growth, Sheffield must bridge a 'prosperity gap' that has been costed at £1.1 billion. More jobs must be created, higher earners must be attracted through a better quality of life, and – crucially – the skills of the city's population must improve markedly.

Financial and business services, the plan says, offer significant scope for growth. But it rightly recognises that Sheffield lags behind Leeds and Manchester. Advanced manufacturing and technology is another area where Sheffield and neighbouring Rotherham have an advantage. But the manufacturing sector overall continues to decline – employment is expected to halve to only 15,000 by 2020.

The plan sets a target of generating 30,000 new jobs over the next 12 years, of which 16,000 will need to go to local people outside the labour market. Yet fewer than half of all pupils achieved five or more GCSEs at grades A*–C in 2006. And while unemployment has halved since 1995 to 14,000, the number who are economically inactive because of illness or disability rose to 31,000.

The proposed response is nothing if not ambitious. Creative Sheffield will be tasked with generating a diverse, specialised, growing economy, strongly driven by public services, the universities, advanced manufacturing and business and professional services. To achieve that, links with Manchester and Leeds will be strengthened to create a 'northern growth pole' – a cluster of cities with a population to rival London's, improved transport connections and stronger institutional cooperation.

Eight steps are proposed to transform Sheffield's economy:

(1) Turn the city centre into a 'commercial and knowledge centre of national significance'.
(2) Create space for new businesses and encourage inward investment.
(3) Improve productivity.
(4) Improve workforce skills.
(5) Increase the economic contribution of Sheffield's two universities.
(6) Update the city's image through a new 'brand identity'.
(7) Balance growth with sustainability and develop environmental technologies.
(8) Improve collaboration with Leeds and Manchester to develop a 'second UK growth pole'.

However, there are reasons to be cautious. The masterplan was finalised in the autumn of 2007, when phrases like 'sub-prime' and 'credit crunch' has scarcely registered with Britain's civic leaders or the consultants tasked with devising economic strategies. And whether current circumstances prove to be a blip or a long and bumpy ride, there is a strong case for questioning whether the masterplan provides the building blocks for a bridge between current realities and the city's aspirations.

The first reason to be cautious is the future of financial services, seen in the masterplan as a key growth area. Can Sheffield's financial sector grow at a time when the industry's heart in the City of London is suffering such palpitations? In economics as in evolution, the principle of the survival of the fittest applies: and Sheffield, as the final summary report to the Northern Way strategy (Institute for Political and Economic Governance, 2008) makes clear, is less well placed than Birmingham, Leeds and Manchester, both in terms of the size of the sector and in inter-city links between firms. In this industry more than most, London holds sway; it is difficult to envisage Sheffield bucking the trend of shrinkage.

The second reason to be cautious is the state of the residential and commercial property markets. There is positive news in a report by property agents Knight Frank (2007), who concluded that 'investor appetite . . . has never been stronger', partly as a result of public-sector driven physical regeneration. Around 460,000 square feet of office space was under construction in spring 2007, although Sheffield remains several years behind the office boom in Leeds and Manchester. City-centre residential accommodation has been buoyant, with more than 2600 apartments completed since 2000 and many more in the pipeline.

However, some 65% have gone to buy-to-let investors, a market that shows all the signs of imploding.

And that was in 2007. A March 2008 review by property agents CB Richard Ellis paints a rather different picture of the national market:

> Following two quarters of positive net investment into property, institutions withdrew almost £1bn from the sector as a wide shift in market sentiment, hastened by the credit crunch, caused UK commercial property values to correct sharply. Net investment over the entire year was just £400m, down from £2.8bn in 2006 and the lowest figure since 2003.

Again, can Sheffield – or other regional cities looking for routes to prosperity – buck that trend? With more commercial, retail and residential property becoming available in London, and prices stabilising or falling, where is the argument for regional cities' competitive advantage?

The third, and possibly most worrying, cause for caution is the skills gap. Sheffield's masterplan rightly focuses on the need to raise workforce skills and productivity. While latest figures show an improvement at GCSE level (Sheffield City Council, 2007), this is from a low base: 48.2% of pupils achieved five or more GCSEs at grades A*–C in 2006, up from 46.5% in 2005 and 44.4% in 2004. That's progress, but it is worryingly slow.

To this unappetising mixture we must add political uncertainty. In Sheffield, a new Liberal Democrat administration has taken over, on an electoral platform of ending the concentration of funds on what it calls Labour's 'favoured areas' – those neighbourhoods which, by any yardstick, need the greatest investment in skills, education, and economic activity. Nationally, there is no guarantee that the structures proposed in *Prosperous Places* will survive for long after the next general election.

None of this is to disparage the hard work and ambition that has gone into Sheffield's economic masterplan, or the strength of its analysis of the base from which the city must grow. The issue is how quickly such ambitions can be realised in a climate that is looking much more stormy than that of 12 months ago. Sheffield, at least, has done its groundwork and has made remarkable physical improvements to its city centre and infrastructure. Towns and cities that have done less are likely to struggle more.

Goodbye to Convergence Theory?

There is a fifth difficulty facing Sheffield and its fellow core cities. This is the growing body of evidence that convergence theory – where regional economies catch up as the capital overheats – simply does not work in practice.

Assume there will be no recession, that the property and financial services sectors emerge relatively unscathed from current turbulence, that there is no significant political shift and that by 2009 it's business as usual for London and regional cities. What then?

The Treasury sub-national review (HM Treasury, 2007, p. 11), written in more optimistic times, is frank about the conundrum: ‘Although there are currently signs of improvements in the performance of the regions and in deprived areas, it is not possible to say whether . . . objectives will be met. Raising the growth rate in all regions and reducing the gap in growth rates between regions remains extremely challenging.’

Given that it puts the value of the productivity gap between the best-performing and worst-performing regions at £60 billion, it is right to be cautious.

While the sub-national review highlights a narrowing of the regional performance gap between 2003 and 2005 (HM Treasury, 2007, p. 35), this should not be taken as evidence of convergence: the *State of the English Cities* report (ODPM, 2006, p. 64) suggests a time lag between economic growth in London and the outlying parts of England, with a ripple effect of growth in the north and west as the London economy overheats. The underlying trend is that growth continues to be led by London and the southeast. It points out, though, that such ripples present ‘a particularly opportune time for policy intervention’. Meanwhile Dorling *et al.* (2007), in their study of income inequality in the UK over nearly four decades, conclude that ‘socioeconomic and geographical polarisation is increasing’.

The *State of the English Cities* report is realistic about the difficulties of boosting competitiveness in England’s poorer regions. It warns (ODPM, 2006, p. 108): ‘The scale of change required will need vision, long-term strategies, large-scale funding and some luck with external circumstances.’ Large-scale funding is not a promise anyone has heard from the Treasury recently. And as for luck with external circumstances, it could be argued that we’ve had ten years of it, and it’s starting to run out.

In for the Long Haul

Poverty and disadvantage have long been recognised as endemic problems. And the challenges of reinventing lagging post-industrial cities are hardly new.

An illustration of how deep-seated such challenges are, and how difficult it is to implement solutions, can be found in Pittsburgh, a city with a comparable heritage to Sheffield. Pittsburgh, which had boomed through Andrew Carnegie’s success in steel manufacturing, was far-sighted enough to address the issue of decline and revival in the 1940s. But as Jacobs (1970) wrote:

> During World War II, the rulers of Pittsburgh took stock of the city and its long-gathering troubles and decided that the city was not ‘attractive’ enough to hold its young people or to attract new industries. In the twenty years since, one measure after another has been tried, much as if the economic problems of Pittsburgh were the problems of a young lady with insufficient grooming, manners, breeding and popularity . . . if such a ruined city is ever to be

> revitalized, its development processes may have to begin over again, much as if it were an embryonic city. (Jacobs, 1970, pp. 188–189)

More than 30 years later, Pittsburgh's challenges were much the same. Writing in 2002, Florida (2002) commented:

> Over the years I have seen the community try just about everything possible to remake itself, and I was personally involved in many of these efforts. The region has launched a multitude of programs to diversify its economy . . . It rebuilt its downtown virtually from scratch, invested in a new airport and developed a massive new sports complex . . . It devotes considerable effort to attracting and retaining talented young people. But nothing, it seems, can reverse the tide of people and companies leaving. (Florida, 2002, p. 216)

Will Sheffield's masterplan, and those of other regional cities, be regarded in 30 or 50 years' time as historic turning points, or as brave and aspirational attempts to deal with wicked issues that are unresponsive to national or local strategies?

One thing is clear. The need to invest in economic development, skills, infrastructure and quality of life is perpetual. The strategies that emphasise such needs and stimulate action may not achieve their objectives, but it would be hard to make the case that doing nothing is a better option.

The question for Sheffield's city development company and new civic leaders is whether they – and others responsible for major regional cities – can be fleet-footed enough to respond to change while remaining farsighted enough to keep their eye on strategic objectives. The challenge for governments is to invest on a scale and a span that comes anywhere near matching the scale and span of regional disadvantage.

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